HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

New Home Market

In 2006, surge in multi-family construction to boost total housing starts to 1,200 units

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After reaching an 18 year high of 1,242 units in 2004, total housing starts in the Regina Census Metropolitan Area dipped to 888 units in 2005. This decline was largely due to a reduction in multi-family starts. While single-detached starts experienced a modest drop from 695 units in 2004 to 572 units in 2005, multi-family starts plummeted from 637 units to 316 units over the same period. A large build up in the supply of multi-family units in 2004 and 2005 caused some builders to postpone construction plans.

Single-detached starts are forecast to increase by 4.9 per cent from 2005 to 2006 reaching 600 units. Meanwhile, multi-family starts, which include semi-detached units, rows, and apartments, are poised for an impressive 90 per cent improvement in 2006, totaling 600 units. This will represent the second best year for multi-family construction since 1983. Moreover, 1,200 total starts expected for 2006 will represent only the third time since 1988 that this level has been reached.

Single-detached market operating at full capacity

In March 2006, the total supply of single-family units under construction and units completed and not absorbed has reached 419 homes, up 18 per cent from that seen in March 2005. At the current absorption trend, it will take about nine months to deplete this supply. A nine or ten month supply is higher than has been common in Regina in previous years. However, readers must recognize that this is more a function of comparing a high level data point with a low level data point. At 305 units, the under construction count in March 2005 was the lowest monthly total for 2005. Meanwhile, in March 2006, the under construction count is at its highest March point since 1980 as builders have attempted to increase inventory in anticipation of high demand from consumers in the spring. It is anticipated that the majority of these high number of units under construction will be absorbed upon completion and the duration of supply will subsequently drop over the coming months.

Since home builders in Regina are producing housing units at maximum capacity, CMHC expects 600 starts for each of 2006 and 2007 (See Figure 1).

REGINA

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While demand conditions might warrant a higher level of production, the pace of land development and a limited supply of skilled labour will constrain supply.

Our forecast considers that minimal rental increases and sharply rising prices of new homes may cause some potential first-time buyers to postpone homeownership or seek homes in the existing resale market. Employment gains and improved in-migration should partly mitigate the affect of these factors.

Canada

60 YEARS ANS

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HOME TO CANADIANS

Average price of new singles to reach $230,000 in 2006

The average price of a new house increased almost $26,000 from 2004 to 2005 to reach $218,857. Our forecast calls for a more modest rise in average price in 2006 to $230,000 and $242,000 in 2007. Much of the price increase for homes built on newly-developed land has already been accounted for in the 2004-2005 increase in average price. However, rising labour inputs and building material costs will continue to result in higher prices for consumers. Demands from move-up buyers for more expensive amenities and features will also contribute to the escalation of the average price.

Regina homebuyers are shifting into price ranges in excess of $250,000. The share of absorptions in the price ranges of $250,000 to $274,999 increased from six per cent in 2004 to eight per cent share in 2005 while the price range of $275,000 to $299,999 saw an increase in market share from two per cent to five per cent in the years 2004 to 2005. At the end of 2005, sales of homes priced in excess of $200,000 captured more than 50 per cent of the new housing market compared to 36 per cent at the end of 2004.

The average price per square foot in the city as a whole is about $148 for land and building, not including G.S.T. This is an increase of about 14 per cent over 2004 price per square foot. In terms of specific neighbourhoods, the average per square foot price for a single-family dwelling is $145 in Lakeridge, $132 in Parkridge and $152 in Windsor Park.

As a result of higher prices, home buyers are being increasingly attracted to developments outside the city limits in search of lower lot prices. Going forward, rising prices may encourage some potential new home buyers to consider the resale market and slightly higher mortgage rates may lead to some buyers to lower their expectations with respect to amenities and size of home.

Multi-family housing starts rebound

In 2005, 193 apartment condominiums were absorbed by the Regina market. At the time of writing, the supply of units at various stages of completion is more than 50 per cent lower than this time in 2005. There are less than five suites that are completed and unoccupied.

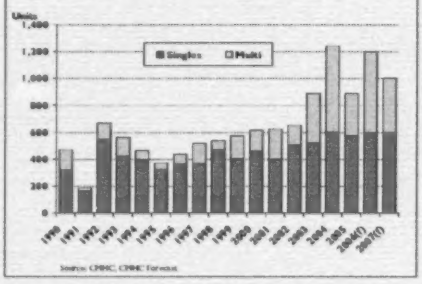
The supply of condominium row housing peaked at just over 200 units in 2005 and has now settled back to just less than 195 units. The absorption trend approached 17 units per month in August 2005 but more recently has settled back to 13 units per month. Given these supply and demand characteristics, the duration of supply is running between 12 and 13 months. We expect this slight over-supply to be absorbed quickly in the coming months.

The duration of the current supply is sufficient to last only 11 months at the current absorption trend. When the duration of inventory reached this level in 2004, it brought about a surge in apartment condominium starts and we expect this to reoccur in 2006.

Multi-family starts are forecast to rise from 316 units in 2005 to 600 units in 2006, bringing production back to the 2004 pace of construction. (See Figure 1) Demand from the 55 and older age group will be a key factor in the increase in multi-family construction. Market intelligence and discussions with industry indicate that this age group favours elevatored apartments with underground parking and upscale semi-detached units. Multi-family units in 2007 will dip to 400 units as builders attempt to manage inventory by ensuring the successful absorption of units started in 2006 prior to commencing work on new projects.

The average price of a condominium apartment in Regina in 2005 was $140,614. In 2005, condominium apartments priced in the $100,000 to $119,999 range shared the market equally with those priced $120,000 to $139,999 with each capturing a 31 per cent share. In 2006 and 2007, prices of condominium apartments will

Figure 1
Total Housing Starts



Sources: CMHC, CMHC Forecast

increase with increased land and building costs and increased demand from an aging population.

Row housing condominiums saw and average price of $135,057 in 2005. Row units priced in the $120,000 to $139,999 range captured more than 42 per cent of the market. Close to 35 per cent of absorptions recorded were in the $140,000 and up range.

RESALE MARKET

Existing housing sales on the upswing in 2006

New listings are on the upswing and sales have not increased as quickly resulting in a larger inventory of active listings. We expect some of these new listings are resulting from existing homeowners who are moving to new condominium housing. Our forecast calls for listings to continue their upward trend in 2006 then slip slightly in 2007.

CMHC is forecasting resale activity to reach 2,800 units in 2006 and 2,700 units in 2007. (See Figure 2) Rising prices for new housing and more choice on the resale listings side will be positive factors encouraging increased sales in 2006. Rising employment and increased in-migration will also support the resale market. The anticipated increase in mortgage interest rates may moderate demand to some extent but the carrying cost of an existing home will still be lower than a new home, giving resale housing an advantage over the higher-priced new housing. Sales will dip slightly in 2007 due to the anticipated slippage in listings.

Average resale prices up in excess of 10 per cent

The average price of resale housing will increase 11.2 per cent in 2006 to $136,000. and a further 10.3 per cent to $150,000 in 2007. The increase in average price stems from both an escalation in the price of the typical home and the shift in the proportion of sales in the higher price ranges. In fact, the Association of Regina Realtors reports there has been a 72 per cent increase in the number of sales over $200,000. All price ranges of $120,000 and over saw an increase in the number of sales in 2005 compared to 2004.

In 2005, the average number of days listed was 34.8 days, up nine per cent from the average days listed in 2004 of 32.1 days. The days listed is trending up slightly to 39 days in early 2006. As higher-priced properties tend to take longer to market and as there are an increasing proportion of these properties being sold, we would expect to see an increase in the average listing period in coming months.

Cost of homeownership expected to climb

The average mortgage interest rate (for five year term mortgage rates) declined in 2005 thus defraying part of the increase in principal and interest that would have resulted from the increase in average resale price.

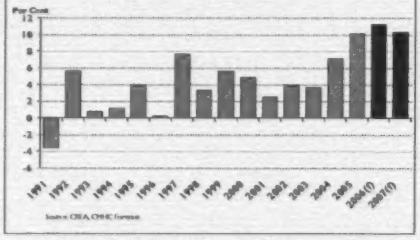
The cost of making mortgage payments on a resale home purchased at the forecast average resale price will increase by almost 18 per cent in 2006 and 12 per cent in 2007. These increases in the monthly principal and interest payments result form both higher prices and the forecast for higher mortgage rates in the forecast period. These increases will have some negative impact on homebuyers.

RENTAL MARKET

Average vacancy rate will be three per cent in 2006 and 2007

Our forecast calls for the average vacancy rate to remain stable at three per cent for the City of Regina. Rising mortgage interest rates and higher prices in the resale and new housing markets will cause some rental households to postpone their decision

Figure 2
MLS® Price Growth



Source: CREA, CMHC forecast

to move toward homeownership. Employment gains will lead to in-migration and growth in the number of renter households.

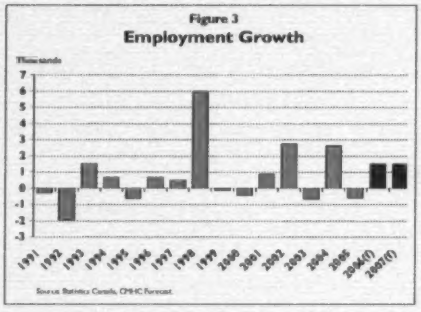
Regina rental increases have, historically, been modest averaging only two per cent annually for one and two bedroom apartments. Commonly, these increases are average approximately $13 added to the monthly rent of one and two bedroom suites. The monthly rent for a two bedroom apartment is forecast to rise by 2.5 per cent in 2006.

ECONOMIC OUTLOOK

Modest employment gains in 2006 and 2007

Regina saw a decline in average employment in 2005 but there will be

Figure 3
Employment Growth



Source: Statistics Canada, CMHC Forecast

employment gains in 2006 with an additional 1,500 employed. (See Figure 3)

In 2005, the Goods Sector saw a gain of 650 employed which was wiped out by losses of 950 employed in the Service Sector. Retail Trade, one of Regina's largest employers, recorded losses of more than 1,600 employed.

The Construction Sector ended the year with average employment of just over 5,700 employed, down from the 6,000 seen in 2004.

Average weekly earnings for all industries experienced a decline of 1.2 per cent in 2005 but there were increases in average weekly earnings in Manufacturing, Transportation, Professional, Scientific and Technical Serves as well as Public Administration. There were significant losses in Utilities, Metal Manufacturing, Trade, and Information, Culture and Recreation

MORTGAGE RATE OUTLOOK

The monetary tightening cycle will continue at a moderate pace in the U.S. and Canada for the rest of 2006. Both short and long-term interest rates are expected to increase by 25-50 basis points in Canada and the U.S. during the remaining months of this year. While still low by historical standards, Canadian mortgage rates are expected to rise in line with corresponding interest rates in 2006. One and five-year mortgage rates are forecast to be in the 5.75-6.75 and 6.25-7.25 per cent range respectively in 2006.

CMHC FORECAST SUMMARY

Regina Census Metropolitan Area
Spring 2006

	2003	2004	%Chg	2005	%Chg	2006 (f)*	%Chg	2007(f)	%Chg
RESALE MARKET									
MLS®(1) new listings (Monthly Avg.)	292	325	11.1%	339	4.4%	367	8.3%	356	-3.0%
Total MLS® Sales	2,640	2,785	5.5%	2,730	-2.0%	2,800	2.6%	2,700	-3.6%
Average MLS® Price	$103,759	$111,041	7.0%	$122,284	10.1%	$136,000	11.2%	$150,000	10.3%
NEW HOME MARKET									
Starts									
Total	889	1,242	39.7%	888	-28.5%	1,200	35.1%	1,000	-16.7%
Single-detached	521	605	16.1%	572	-5.5%	600	4.9%	600	0.0%
Multiple-detached	368	637	73.1%	316	-50.4%	600	89.9%	400	-33.3%
Average New House Price									
Single-family	$184,099	$192,949	4.8%	$218,587	13.3%	$230,000	5.2%	$242,000	5.2%
RENTAL MARKET									
Vacancy rate (Oct) -Per cent	2.1	2.7		3.0		3.0		3.0	
2-bedroom Rent (Annual Per Cent Chg)	1.4	2.2		2.5		2.5		2.5	
ECONOMIC OVERVIEW									
Mortgage rate (1 yr term)	4.84	4.59		5.06		6.27		6.41	
Mortgage rate (5 yr term)	6.39	6.23		5.99		6.78		6.93	
Employed	106,600	109,200	2.4%	108,600	-0.5%	110,100	1.4%	111,600	1.4%
Employment growth (# jobs)		2,600		-600		1,500		1,500	
Net-migration (Census Year)	291	202		190		200		200	

Source: CMHC, Statistics Canada, Canadian Real Estate Association and the New Home Warranty of Saskatchewan, CMHC Forecast

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

CMHC – HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for over 60 years.

Together with other housing stakeholders, we help ensure that Canada maintains one of the best housing systems in the world. We are committed to helping Canadians access a wide choice of quality, affordable homes, while making vibrant, healthy communities and cities a reality across the country.

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